

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: September 3, 2019

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190001-EI
Company Name: Duke Energy Florida, LLC
Company Code: EI801
Audit Purpose: A3a: Hedging Activities
Audit Control No.: 2019-070-2-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Duke Energy Florida, LLC
Hedging Activities

Twelve Months Ended July 31, 2019

Docket No. 20190001-EI
Audit Control No. 2019-070-2-1

August 23, 2019

A handwritten signature in cursive script, appearing to read "Simon O. Ojada", written over a horizontal line.

Simon O. Ojada
Audit Manager

A handwritten signature in cursive script, appearing to read "Linda Hill", written over a horizontal line.

Linda Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated March 8, 2019. We applied these procedures to the schedules prepared by Duke Energy Florida, LLC in support of its filing for hedging activities in Docket No. 20190001-EI for the twelve months ended July 31, 2019.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

DEF or Utility refers to Duke Energy Florida, LLC.

Accounting Treatment

Objective: The objective was to determine whether the accounting treatment for futures, options, and swap contracts between DEF and its counterparties is consistent with Commission Order No. PSC-2002-1484-FOF-EI, issued October 30, 2002, in Docket No. 20011605-EI, and as clarified by Order No. PSC-2008-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-2008-0667-PAA-EI, issued October 8, 2008, in Docket No. 20080001-EI.

Procedures: We obtained DEF's supporting detail of the hedging settlements for the 12 months ended July 31, 2019. The support documentation was reconciled to the general ledger transaction detail. We verified that the accounting treatment for hedging transactions and transaction costs is consistent with Commission orders relating to hedging activities. The Utility did not enter into any new contracts between August 1, 2018 and July 31, 2019. No exceptions were noted.

Gains and Losses

Objective: The objective was to determine whether the gains and losses associated with each financial hedging instrument that DEF implemented are in compliance with Commission Order Nos. PSC-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-PAA-EI, relating to hedging activities.

Procedures: We reconciled the monthly balances of hedging transactions from DEF's Hedging Details Report for the period August 1, 2018, through March 31, 2019, to its Hedging Summary by Commodity Reports for 2018 and 2019. DEF completed its outstanding hedging transaction settlements as of March 31, 2019. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 20 natural gas hedging transactions from September 2018 through December 2018 as a sample. We reconciled the selected samples from the Hedging Details Report to the third-party confirmation notices and contracts. We reconciled the gains and losses to the Utility's journal entries. We compared the price on the confirmation notice to the price published by the NYMEX Henry Hub gas futures contract rates. No exceptions were noted.

Hedged Volume and Limits

Objective: The objective was to determine whether the quantities of natural gas, residual fuel oil, and purchased power are hedged within the limits (percentage range), as listed in the Utility's Risk Management Plan.

Procedures: We reviewed the quantity limits and authorizations for all hedged fuel types in compliance with the 2016 Risk Management Plan. There were no new hedging and Risk Management Plans in 2018 or 2019. No exceptions were noted.

Separation of Duties

Objectives: The objectives were to review DEF's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office, and the internal and external auditors' work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. We reviewed the Utility Audit Services Department's evaluations for the 12 months ended December 31, 2018, for the Regulated Fuels Inventory Management Process and the Regulated Trading Cycle. There were no external or internal audits on hedging activities during the test period. No exceptions were noted.

Audit Findings

None

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